HOUSING MARKET OUTLOOK
Ottawa[1]

CANADA MORTGAGE AND HOUSING CORPORATION

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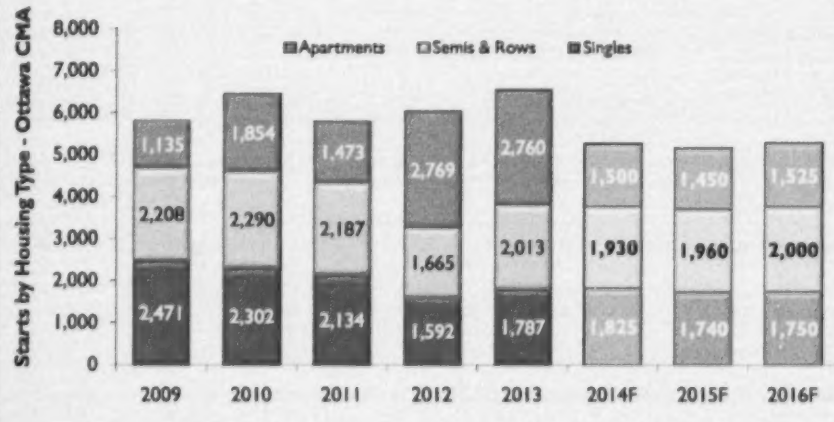
Market Outlook at a Glance

- MLS® sales activity to slowdown further in the Ottawa CMA in 2015.
- MLS® prices will grow at a rate similar to that of inflation as supply and demand will remain balanced.
- Housing starts will retreat slightly in 2015.
- Added supply of new condos will push the vacancy rate of purpose-built apartments upwards.

Figure 1

Housing Starts Consistent with Demographic Needs



Source: CMHC

The forecasts included in this document are based on information available as of October 22, 2014.

[1] Ontario part of Ottawa-Gatineau CMA

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New Home Market: Singles and rows rebound but remain below long term averages

Figure 2

Source: CREA; CMHC Forecast ranges
* Seasonally adjusted.
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Total housing starts are expected to retreat two per cent in 2015 following this year's decline in market activity. The drop in condominium apartments[2] is leading the decline in starts over the forecast horizon as the inventory of completed but unsold apartment units is gradually absorbed by the market. Consequently, one thousand fewer condominium unit starts are expected this year, almost half of the 2013 number; this will be followed by a modest decline in 2015 at another three per cent.

Starts activity will be on a moderating trend over the course of 2015 as gradually rising interest rates weigh on market sentiment and builder appetite to initiate new projects. By 2016, housing starts activity will see a very slight growth, reflecting an improvement in economic conditions.

The starts picture will vary somewhat by dwelling type. The current year is expected to close off with a higher number of single-detached and row units breaking ground relative to 2013. However, in 2015, expect to see a scale back in single-detached units to balance out the higher starts numbers seen this year. In contrast, rows will post modest growth over the next two years.

Year-to-date to September the percentage of completed but unabsorbed single-detached homes averaged 5.0 per cent, compared to an average 2.9 per cent in the previous 3 years. There were 1,115 units under construction up to the third quarter of this year, guaranteeing a sufficient level of completed units coming on stream next year. That being said single-detached completions are at historic lows (stemming from historically low starts levels).

The bulk of single-detached construction has been taking place in the outskirts of the city where lower land prices make these areas more attractive to builders looking to reduce their costs and cater to meeting the demand for more affordable single-detached dwellings. The existing trend where builders are going further out from Ottawa's core is expected to continue. Aside from robust labour numbers for the 45-64 move-up buyer age group, this movement away from areas closer to the city center has stimulated single-detached home construction coming from its very low levels following the global financial crisis.

Stronger employment conditions for the move-up buyers in the CMA have helped sustain the demand for single-detached homes. That being said, single-detached starts will not regain lost market share of recent years as preferences slowly shift toward other dwelling types, and as affordability in an uncertain economic environment remains the most important factor in the home-buying decision.

As row starts are gradually becoming a more popular alternative to pricier single-detached homes and smaller-sized apartment units, the CMA is expected to witness a continuous rise in the construction of this dwelling type over the 2015-2016 period. The price of a newly-built row unit

[2] In the last 5 years, condominium apartments have captured just over 80 per cent of total apartment construction.

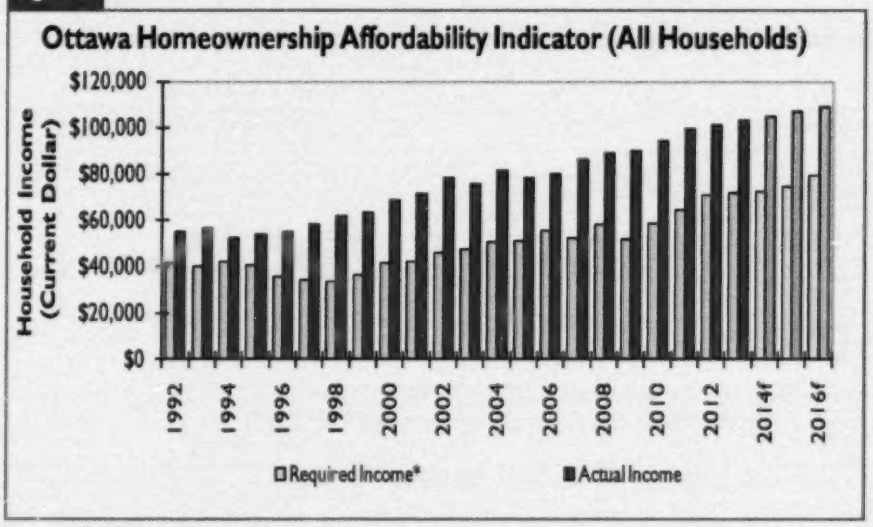
averaged 32 per cent lower than a single-detached home year-to-date to September and was 830 square feet larger than the average condo size and only 3 per cent higher in price, making it attractive for some buyers.

Furthermore, rows are being absorbed at a faster rate than condominium apartments. The ratio for completed but unsold rows averaged 6 per cent year-to-date to September compared to a significantly higher rate for condos. Rows are filling in a market gap left by lower single-detached home numbers. While employment conditions for the first time buyers aged 25-44 remain soft over the forecast horizon, rows will continue to maintain a substantial market share as a more affordable alternative for a first home.

Builders have been responding to market signals in the CMA, rebalancing construction to work off inventories. There were over three thousand condominium apartments under construction at the end of the third quarter this year. As inventory levels of condo apartments wind down, some major projects are expected to come on stream in 2016, lifting apartment starts once more. Year to date to September, the percentage of completed but unabsorbed condo apartments reached 16 per cent, while down from a peak of almost 20 per cent last year, it remains fairly high signalling lower market appetite for added supply.

In 2015, employment will rise a modest 0.8 per cent, but income will rise at a faster rate than inflation, providing support for the new home market. Ottawa's average weekly earnings are growing at a solid rate at two per cent, boding well for housing demand. In addition, while employment in the public administration sector has scaled back from a year earlier, the services sector is picking up; some of these jobs, particularly those in the IT sector, are high paying jobs.

Figure 3

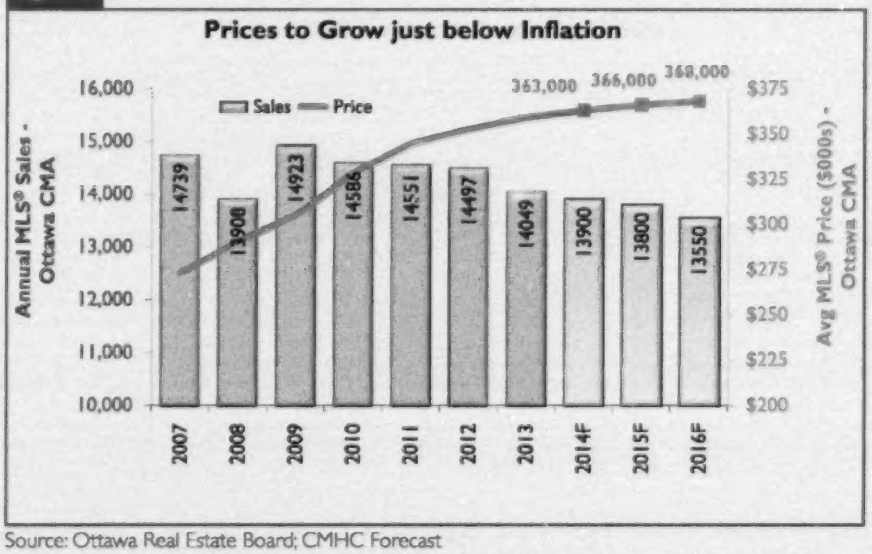


Souce: CMHC, Statistics Canada, CREA.
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on a 10 per cent down payment, the posted fixed five year mortgage rate and the longest available amortization for a mortgage.

Resale Market: Home Sales to Moderate over the Forecast

Existing home sales in the Ottawa CMA are projected to close the year 1.1 per cent lower than in 2013. While the current year started off on a slow

Figure 4



Source: Ottawa Real Estate Board; CMHC Forecast
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note, market activity continued to gain momentum over the course of the year. In the third quarter, seasonally adjusted sales were up 4.2 per cent compared to the previous quarter, driven by a rise in single-detached home sales. Sales are expected to unwind over the next few quarters resulting in lower sales in 2015 and 2016.

Activity in the resale market should moderate over the forecast horizon as gradually rising interest rates will slow down sales. However, a substantial gap of 27 per cent between newly-built single-detached homes and resale ones will insure the continued attractiveness of these homes in the resale market. Additionally, Ottawa household income remains higher relative to other CMAs sustaining the demand for single-detached homes. Furthermore, 45-64 age groups have higher incomes than other age groups and some of them are demanding single-detached homes.

On the supply side, seasonally adjusted listings closed off the third quarter growing only a modest 0.4 per cent over the previous quarter; however, the year should end on total listings surpassing last year's level by almost two per cent. The sales-to-new-listings (SNL) ratio will be maintained in balanced[3] market territory. In 2015 and 2016, as sales activity weakens further and listings continue to rise at a stronger rate, the SNL ratio will retreat slightly each year from 46 in 2014 to 45 and 43 per cent respectively.

On the whole, sales and listings in the CMA are expected to remain fairly aligned next year, so that prices will grow, albeit at a slower rate than inflation. Affordability will remain relatively flat over the 2015-2016 period. Although income will grow at a slightly higher rate than prices, since mortgage rates are also expected to increase as a result of rising interest rates in late 2015, the ratio of required income to actual income will remain constant.

The change in home prices will vary by dwelling type. Single-detached[4] home prices on the resale market will continue boosting the overall average price growth and offsetting some of the price declines of other dwelling types. Year-to-date a growing share of residential sales has been closing above the average price, which explains some of the price increase.

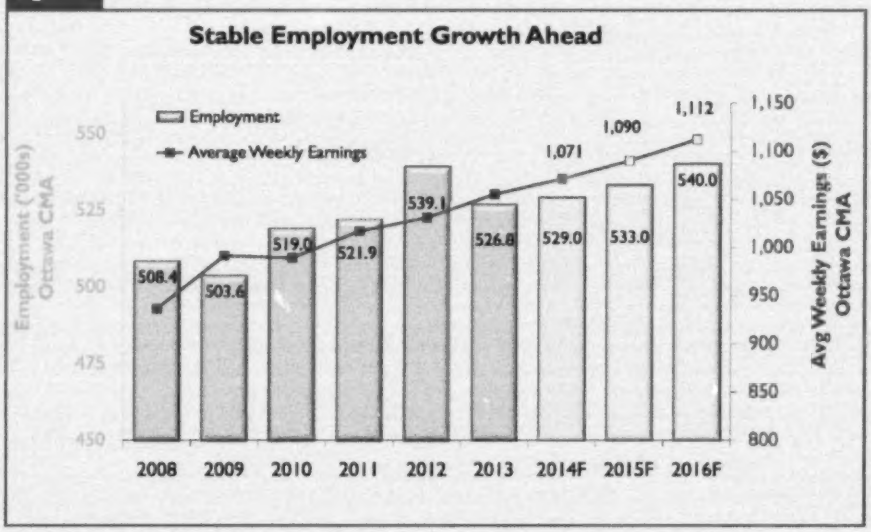
By submarket, West Ottawa, which includes the submarkets of West End, Nepean, Kanata and Stittsville captured the highest share of resale transactions with 39 per cent. East Ottawa as a whole trails far behind; however, the suburb of Orleans alone, which is located in the East of the CMA, captured the highest share of sales year-to-date to end of September, reaching 17 per cent. Over the forecast horizon it is expected that West Ottawa will maintain its dominance both in the new home market and the resale market as stronger population growth than other Ottawa areas supports housing demand.

Economic Overview: Employment to Stabilize over the Forecast Horizon

Another 4,000 jobs will be added in the economy next year, a fairly modest growth rate of 0.8 per cent. Employment should rebound further in 2016 adding another 7,000 jobs as overall economic conditions improve. Year-to-date to September employment remained flat from last year as recent months witnessed gains in employment in different sectors of the economy.

Figure 5

Stable Employment Growth Ahead



Source: Statistics Canada; CMHC Forecast

[3] The benchmark range of a balanced market is 40 to 60 per cent, where supply is closely aligned with demand.
[4] Single-detached homes captures 58 per cent market share to September.

Recently the public administration sector which employs 20 per cent of Ottawa`s workforce is showing a slight increase in employment numbers, but the gains remain modest and the sector is not expected to return to previous hiring peaks. The rise in service sector jobs has cushioned some of the public administration job declines.

The unemployment rate is expected to edge higher in 2015 to 7.0 per cent before declining slightly in 2016 as employment growth surpasses labour force growth. As the number of jobs seekers rises more strongly in 2015, there will be a more modest growth in the average wage. Average weekly earnings should improve in 2016 as overall economic conditions improve.

Rental Market: Vacancy Rate to Inch Higher

The rental vacancy rate is expected to rise to 3.4 per cent in 2015 before coming down to 3 per cent in 2016 as general employment conditions improve. On the supply side, so far in 2014, there were 565 new purpose-built apartment units added to the market that will have an effect on the vacancy rate. In addition, the availability of condo apartments offered for rent in the secondary market will also push the vacancy rate in the purpose-built apartment segment up. The percentage of condo apartments offered for rent in 2013 was 24 per cent. If this percentage share is maintained over the forecast horizon, the record numbers of condominium apartments completed and coming onto the market will pressure the vacancy rate upwards.

Weak employment conditions for the 25-44 will put downward pressure on the vacancy rate as they stay put and postpone their move into the ownership market. Although opposing pressure will be coming from the 18-24 year old age group who may be staying longer at home and not renting, there is a reduced number of younger renters vs. more mature ones. Additionally, a slight increase in immigration will bring new renters into the Ottawa CMA, balancing out the lack of younger adults staying at home. Overall rental demand will remain stable.

Although demand for rental accommodations will remain firm, the rise in the supply will translate in gradually increasing average rents each year in keep with inflation over the forecast horizon. Expect the average rent to increase by 1.8 and 0.9 per cent respectively for 2015 and 2016.

Mortgage Rate Outlook

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Mortgage rates		
1 Year	Q3 2014	3.14
	Change from Q3 2013	0.00
	2014 (F)	3.00 - 3.25
	2015 (F)	3.20 - 4.00
	2016 (F)	3.70 - 4.60
5 Year	Q3 2014	4.79
	Change from Q3 2013	-0.48
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00
	2016 (F)	5.55 - 6.45

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain at historic lows over the forecast horizon supporting housing demand. Some rise in rates may begin in mid 2015 slightly impacting affordability and stretching budgets.
Employment	Ottawa CMA employment will post a slight growth in 2015 as economic conditions improve and public sector cuts moderate.
Income	Income growth will surpass inflation growth in 2015 before experiencing stronger growth in 2016.
Population	Steady population growth coupled with positive net migration will support housing demand.
Resale Market	Activity in the resale market should moderate over the forecast horizon as interest rates begin to rise in 2015 pressuring demand for housing.

Risks to the Outlook

This outlook is subject to some risks, including the following:

- While the outlook for the Canadian housing sector is one of moderate growth in the near term with moderation expected in the medium-term, there are risks to the Canadian housing sector outlook. First, there is some evidence of a short-term build-up of supply in select housing markets, particularly in the multi-unit segment. Second, household debt-levels, while stabilizing, continue to be high relative to historical standards.
- Given that Canada is an open economy, there are a number of global market risks to consider as well that could put added pressure on housing market supply imbalances and the ability of households to service their debt, through their impact on household incomes, employment and lending rates, were they to occur.
- There are a number of global economic and geopolitical risks facing several economies. There is a risks of a slowdown in China and the resulting uncertainty regarding the stability of the Chinese banking system. In addition, there are deflationary concerns in the Euro area due to prolonged low inflation and a weak growth outlook. In Japan, recent increases in sales taxes have led to larger than anticipated reductions in economic growth. And finally, there is heightened concern about how renewed geo-political tensions in the Middle East could impact global markets, particularly commodities.
- While the growth forecast for the U.S. has been upgraded from a disappointing first quarter of 2014, there remains uncertainty in regards to the strength of the post-recession recovery in the U.S. A less optimistic economic growth forecast could weaken Canadian economic performance, particularly exports. While Canadian exports are showing signs of recovery, the strength of the recovery is uncertain and could take longer than currently anticipated.
- Recent upward movements in Canadian consumer prices could lead to pressure to raise interest rates earlier than currently anticipated and would likely translate to rising mortgage rates. However, the Bank of Canada has indicated that it expects recent upward price movements to only be temporary, primarily reflecting a weak Canadian dollar. In any case, the BOC noted in its June 2014 Financial System Review that a significant housing market correction would require a market event leading to declining household incomes and rising unemployment. Gradual increases in mortgage rates, in and of themselves, are not expected to have a significant impact on housing demand.
- Canadian debt levels relative to income may leave households vulnerable to adverse shocks

Forecast Summary Ottawa CMA Fall 2014									
	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	2,134	1,592	1,787	1,825	2.1	1,740	-4.7	1,750	0.6
Multiples	3,660	4,434	4,773	3,430	-28.1	3,410	-0.6	3,525	3.4
Semi-Detached	361	286	398	300	-24.6	310	3.3	330	6.5
Row/Townhouse	1,826	1,379	1,615	1,630	0.9	1,650	1.2	1,670	1.2
Apartments	1,473	2,769	2,760	1,500	-45.7	1,450	-3.3	1,525	5.2
Starts - Total	5,794	6,026	6,560	5,255	-19.9	5,150	-2.0	5,275	2.4
Average Price ($):									
Single-Detached	478,292	482,586	490,733	512,000	4.3	519,000	1.4	524,000	1.0
Median Price ($):									
Single-Detached	455,990	461,900	466,900	475,000	1.7	480,000	1.1	485,000	1.0
New Housing Price Index (% chg) (Ottawa-Gatineau)	3.0	2.6	0.4	0.4	-	2.0	-	1.5	-
Resale Market									
MLS® Sales	14,551	14,497	14,049	13,900	-1.1	13,800	-0.7	13,550	-1.8
MLS® New Listings	25,949	28,332	29,876	30,445	1.9	30,935	1.6	31,525	1.9
MLS® Active Listings	4,234	5,348	6,612	7,300	10.4	7,445	2.0	7,600	2.1
MLS® Average Price ($)	344,791	352,610	358,876	363,000	1.1	366,000	0.8	368,000	0.5
Rental Market									
October Vacancy Rate (%)	1.4	2.5	2.9	3.2	0.3	3.4	0.2	3.0	-0.4
Two-bedroom Average Rent (October) ($)	1,086	1,115	1,132	1,140	0.7	1,160	1.8	1170	0.9
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	521,900	539,100	526,800	529,000	0.4	533,000	0.8	540,000	1.3
Employment Growth (%)	0.6	3.3	-2.3	0.4	-	0.8	-	1.3	-
Unemployment rate (%)	5.6	6.2	6.3	6.9	-	7.0	-	6.8	-
Net Migration	13,020	9,922	7,787	8,000	2.7	8,500	6.3	8,500	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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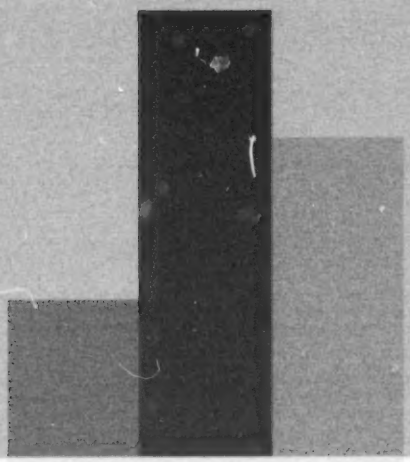

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